

COST *and* MANAGEMENT

THE OFFICIAL JOURNAL OF

THE SOCIETY OF

INDUSTRIAL AND COST ACCOUNTANTS OF CANADA

Telephone 2-0700

INCORPORATED 1920

HEADQUARTERS: 601-602 MACKAY BUILDING,

66 KING STREET EAST, HAMILTON

J. N. Allan, R.I.A., Secretary-Manager and Editor

VOL. XXII

NOVEMBER

No. 10

.. CONTENTS ..

EDITORIAL	362
OBITUARY	363
NEW MEMBERS	364
PERSONALS	366
CHAPTER NOTES	367
CURRENT LITERATURE DIGEST	371
THE ACCOUNTANT'S HORIZON	374
A SURVEY OF THE DIFFERENCES BETWEEN CANADIAN AND UNITED STATES ACCOUNTING PROCEDURES, CAUSED BY VARIATIONS IN LAWS	384
STUDENT SECTION	390

Subscription price to non-members, \$5 per year. Single copies, 50 cents. Members desiring five copies or more of a single issue may obtain them at 25 cents each. Authorized as second class mail, Post Office Department, Ottawa.

EDITORIAL

The Research Committee

The Research Committee met in Hamilton on October 16th for the purpose of laying the ground work for its next project. The committee was very much encouraged by the comments which were received in respect to its first report, although it would have welcomed more suggestions as a guide to its future undertakings.

While there are many subjects which are worthy of study by the Research Committee, it is essential that the efforts expended be directed toward the best interests of the membership as a whole. Toward this end, it was deemed advisable to gather as much information as possible in respect to current cost accounting practice in Canada, through a survey of all companies represented by our membership. It is expected that the information which would be derived from such a survey would not only be of great value in enabling the committee to shape its future programme to meet the best interests of our members, but it would also provide our membership with an authentic record of cost accounting practice being followed in the various classifications of business. It is the sincere hope of the committee that the members will give their full co-operation when they are approached for the information in respect to their own firms.

Student Registrations

Just as we were going to press it was learned that evening lecture classes in our primary courses have now been inaugurated at Edmonton and Calgary through the facilities of the University of Alberta. Some 24 students have registered in Edmonton, although the exact number in Calgary is not yet known. These, together with the exceptionally large number taking the courses at the Lakehead Technical Institute, will bring our total registrations up higher than that of last year, although it had been expected there would be a decrease in the absence of new registrations through the D.V.A.

The value of our courses to students of accountancy and the commercial and industrial businesses, is, we believe, fully appreciated by those who are familiar with them. They give to students the opportunity to acquire that knowledge which will enable them to be of greater service to their employer and secure recognition of their qualifications. They contribute immeasurably to the raising of accounting standards in business, and provide a standard for business men to measure the qualifications of accountants.

OBITUARY

There are many opportunities in the field of industrial accounting for those who have the qualifications to meet the increasingly exacting demands being made upon this profession. These opportunities are guaranteed by the fact that the complexities of accountancy in business are constantly becoming greater, the narrowing margin of profit and the rising break even point are demanding more accurate accounting information, and there are still too few students who are continuing their studies through to a successful conclusion. The number who fail to meet the generally accepted standard of qualifications for accountants are not so much determined by the grading of examination papers as by the lack of determination to follow through the necessary courses of study and reach the examination stage. It will be of interest to know the percentage of candidates who passed the examinations last spring.

Accounting I	74.2
Business Mathematics	58.8
Accounting II	65.2
Fundamentals of Cost	81.5
Advanced Cost	69.7
Industrial Organization	88.2
Industrial Legislation	63.1

While these results, on the whole, are considered to be fair, the fact remains that only approximately 60% of the students sat for the examinations. In other words, approximately 70% of those who wrote examinations received a pass mark, but this represented only 42% of all the students, and of those students who did not pass, 69% did not even reach the examination stage. It is hoped that this reminder will prove timely, as now is the time to be concerned about the examinations next spring.

Obituary

The Late Mr. Norman T. Sinclair, R.I.A.

It is with profound regret that we announce the passing of Mr. Norman T. Sinclair in Winnipeg on October 30th, following an illness for the past two months. Mr. Sinclair was a charter member of the Manitoba Society, and had taken a very keen interest in its activities, particularly in reference to the educational work. He was office manager of the Canada Packers, Ltd., and a charter member of the Winnipeg Chapter of the National Office Management Association.

New Members

Bay of Quinte

Don Kellett, Stewart-Warner Alemite Corp., Belleville.

Calgary

F. C. Lowe, Jr., 725-15th Avenue West.

Fort William-Port Arthur

W. P. F. MacLeod, Provincial Paper Mills, Port Arthur.

Mary Lampshire, Black, Hanson & Company, Port Arthur.

J. W. Geils, The Great Lakes Paper Co. Ltd., Fort William.

W. H. Hunt, The Great Lakes Paper Co. Ltd., Fort William.

William Madge, The Great Lakes Paper Co. Ltd., Fort William.

W. R. Seaborn, Marathon Paper Mills of Canada Limited, Port Arthur.

H. H. Matthews, Matthews Dry Goods Limited, Port Arthur.

Victor Duquette, Leaney Motors Limited, Port Arthur.

Hamilton

David Stewart, 122 Bond Street North.

E. J. Falle, Duro Aluminum Limited.

Ralph Wyse, Barber Dye Casting Co. Ltd.

G. H. Campbell, Gillies Guy Limited.

J. M. Heuchan, International Harvester Company.

W. J. Macaulay, Canadian Westinghouse Co.

W. Hardie, National Hosiery Mills Limited.

J. E. Scott, International Harvester Company.

Robert Ratcliff, Canadian Westinghouse Co. Ltd.

G. W. Funamoto, 75 Wood Street East.

G. E. Swann, Steel Company of Canada Ltd.

Maxwell Horne, Steel Company of Canada Ltd.

G. H. McKelvie, 97 Grosvenor Avenue North.

William Ruston, Steel Company of Canada Ltd.

J. E. Kelly, Steel Company of Canada Ltd.

J. C. Peden, Steel Company of Canada Ltd.

R. L. Robbins, Dominion Foundries & Steel.

F. W. Hastie, 165 Maple Avenue.

A. R. Smith, Proctor & Gamble.

J. M. Crockett, Canadian Westinghouse Co. Ltd.

M. M. Sernie, Massey-Harris, Brantford.

J. D. Logan, Otis-Fenson Elevator Co. Ltd.

R. J. Hamilton, International Harvester Company Ltd.

Margaret Hall, Meakins & Sons Limited.

Lon Harrington, Meakins & Sons Limited.

R. L. Gerrie, Steel Company of Canada Ltd.

S. B. Ross, Steel Company of Canada Ltd.

L. S. Hepworth, 106 Balmoral Avenue South.

J. A. Wilson, The Eaton Knitting Company Ltd.

Angelo Fratesi, 20 Clinton Street.

G. G. Mankiss, R.R. No. 4, Hamilton.

NEW MEMBERS

Mildred M. Harper, 75 Kipling Road.
Herbert Brown, National Employment Service.
H. D. Fearman, McGregor Shirt Company Ltd.
W. G. Warden, Burlington Steel Co. Ltd.
A. S. Hallamore, C.A., Robertson-Irwin Limited.
R. G. Nixon, 212 Grosvenor Avenue South.
J. S. Murton, The Austin Motor Company (Canada) Limited.
Flora J. Atkinson, Canadian Westinghouse Co. Ltd.
J. S. Latimer, Canadian Westinghouse Co. Ltd.

Kingston

R. C. Atkinson, Aluminum Company of Canada Limited. •

Kitchener

Sid Peloso, Textile Industries Limited, Guelph.

Lethbridge

R. F. Viney, 639-8th Street South.

London

C. W. Conway, 1747 Dundas St., London.
W. A. Blakely, 623 Dufferin Avenue.
William Boomslviter, Kellogg Company of Canada Limited.

Montreal

Robert Noel-Bentley, Rolland Paper Co. Ltd., St. Jerome, P.Q.
Costos Angelakis, Royal Typewriter Co. Ltd.
J. A. Martin, Stevenson, Walker Knowles & Co.
E. W. Aumand, M.B.E., 691 Richard Avenue, Verdun, P.Q.
Louis Magyar, 3424 St. Dominique.
H. R. Real Peras, 2337 Kingston Avenue, NDG.
Thomas B. Rose, 3490 Rosemont Blvd.
J. R. Boivin, Empress Shoe Co. Inc.

Niagara

J. H. Warren, North American Cyanamid Ltd., Welland Works,
Niagara Falls.
W. R. Waugh, McKinnon Industries, St. Catharines.

Ottawa

L. L. Connor, J. H. Connor & Son Limited.
J. S. Boulter, 302 Wilbrod Street.
H. E. Stewart, International Fibre Board Ltd., Gatineau Mills, Que.
Stanley Ray, B.A., Ph.B., O'Keefe's Brewery (Ottawa) Limited.

Peterborough

P. C. Caravaggie, Peterboro Lock Mfg., Co.
Andrew Purdon, The De Laval Co. Ltd.
David Miller, Canadian General Electric Co. Ltd.
A. D. Buck, A. W. Robertson Ltd., c/o C.G.E. Contracts.
C. E. Turner, Canadian General Electric Co. Ltd.
Wm. N. King, Canadian Sealright Co. Ltd.

Toronto

J. W. Heywood, 306 Manor Road East.
W. H. Richards, Canadian General Electric Co.

COST AND MANAGEMENT

A. T. Larsen, Abitibi Power & Paper Company Limited.
F. L. Quartermaine, Carrier International Ltd.
J. C. Luckett, Railway & Power Engineering Corp. Ltd.
A. L. Floyd, Hinde & Dauch Paper Co. of Canada Ltd.

Trois-Rivieres

W. G. Finalay, 2498 St. Oliver Street.

Victoria

John Eltringham, 600 Niagara Street.

Windsor

Robert McLelland, Essex Wire Corporation.
J. S. Nowaczynski, 536 Brock Street, Windsor.

Winnipeg

Ray Brooker, 726 Dudley Avenue.

Non-Resident Ontario

M. F. Ralph, c/o Longlac Pulp & Paper Co. Ltd., Longlac, Ont.
W. L. Chapman, Longlac Pulp & Paper Co. Ltd., Longlac, Ont.
W. J. Lagroix, P.O. Box 51, Moulinette, Ont.

Non-Resident Canadian

W. J. E. Constable, 17 Acadia Street, Halifax, Nova Scotia.

Personals

Announcement was made on October 6th of the appointment of Mr. Thos. W. Hall as manager of the Toronto branch of A. Schrader's Son Division of Scovill Manufacturing Company, Inc. Mr. Hall joined the Schrader Canadian organization in 1925 and has served as Office Manager for the past 20 years. He is a member of the Toronto Chapter.

WANTED — ASSISTANT TO COST ACCOUNTANT

With knowledge of Job and
Standard Cost Accounting.
Experience preferred.
Large Ottawa Manufacturing Concern.
Diversified line.
Pension Plan, Group Insurance, etc.
REPLY BOX NUMBER 10
Stating age, qualifications and
salary required.

COST AND MANAGEMENT

Chapter Notes

BAY OF QUINTE

The regular monthly meeting of the Bay of Quinte Chapter of the Society of Industrial and Cost Accountants of Ontario was held in the canteen and recreation hall of the Bata Shoe Company of Canada, Batawa, Ontario, on Monday, October 18th, 1948, at 6.30 p.m.

Following the dinner members and guests adjourned to the recreation hall where Chairman Carl Casey formally extended the Chapter's thanks to the Bata Shoe Company for their generosity in providing us with such ideal facilities for our opening meeting. He also extended congratulations to Student Members, W. A. Lockley, R.I.A., J. R. Wilson, H. M. Dowsett and F. R. Clarke for successfully passing their spring examinations.

Earl Stewart formally introduced the speaker of the evening, Mr. A. Cekota, Superintendent of the Bata Shoe Company. Mr. Cekota gave a very pointed talk on the accountant's role in industry from management's viewpoint. He outlined the basic qualities of an accountant—an analytical mind, a sense of orderliness, a person striving always to determine and record cause and effect of values and events. He stressed the modern trend to train individual workers to be bookkeepers. The worker who does the job is the logical one to record it on a profit and loss basis. He should be accountable for and know the cost of material he receives, value of work done and profit on work done before it leaves his bench. In other words the accounting is done at the time of the act, not when the act is history. Accounting by this method is a decided advantage to good labour-management relations. The worker is aware of his direct contribution to profits, and management is aware of the individual worker's contribution. The analytical recapitulation of the worker's reports presented by the accountant in a constructive manner with a readiness to explain causes and effect for the purpose of management control establishes his worth to management.

Mr. Geo. Brookes thanked the speaker on behalf of the Chapter, and acknowledged from an accountant's viewpoint Mr. Cekota's constructive criticism of the accountant's role in industry.

EDMONTON CHAPTER

The first general meeting of the Edmonton Chapter for the coming year was held in the Corona Hotel on Monday evening, September 27th, under the chairmanship of Mr. W. H. McKinnon.

A most interesting discussion was held on the question of proposed activities for the coming year, particularly regarding the type of program that should be arranged to meet the requirements of both student and general members.

Mr. A. E. McDonald announced that arrangements to conduct evening classes, covering the courses leading to the degree of "Registered Industrial Accountant," have been completed with the accounting faculty of the University of Alberta. Commencement of these courses will depend, how-

COST AND MANAGEMENT

ever, on the enrolment of an adequate number of student members within the next few weeks.

There was also considerable discussion on the subject of the annual convention of the society which is to be held in Alberta in July, 1949. Formation of the required committees is already well under way.

KITCHENER CHAPTER

Business failures in Canada are on the increase, George M. Donald, report manager, Dun and Bradstreet of Canada, Toronto, told members of Kitchener Chapter, at the October meeting held at the Iroquois Hotel, Galt.

In his address on "Basic Elements in a Credit Report," Mr. Donald reported that on the basis of analysis conducted by his company there have been 328 business failures in Canada for the first nine months of this year. During 1947 there were 304 and in 1946, 130. One of the lowest years was 1945 when only 95 failures were recorded. Most of the failures were in Quebec, with Ontario second in line.

Many of the failures are newer businesses which have started since the war and one of the reasons, Mr. Donald believes, is inexperience on the part of owners. The speaker was introduced by T. R. Richardson, of Galt, and a vote of appreciation was extended by R. F. Sidenius, of Preston.

Reports were given by R. Holfeld, of Kitchener, on membership, J. C. Cross, of Guelph, on the chapter's finances, Rob Roy, of Galt, on the student section and Walter Jardine, of Preston, on speakers' committee.

LONDON CHAPTER

The October, 1948, meeting of the Society of Industrial and Cost Accountants of Ontario was held in the Y.M.C.A. building, London, Ontario, on the evening of the 28th. Members met for dinner at 6.30 and the technical meeting followed at 8 p.m. Mr. L. W. Bennett presided. Mr. A. E. Williams and Mr. Bailey of the Steel Company of Canada's office, Hamilton, were then introduced to the meeting by Mr. Frank Burtch. The speakers gave a very interesting and instructive account of their methods of Accounts Receivable control in their office, taking into account collections, supervision of overdue accounts and general credit control. In the discussion period many questions were asked which were well answered by Mr. Williams and Mr. Bailey, who also showed charts as to their accounts receivable methods. The speakers were thanked by Mr. M. P. McBain on behalf of the London Chapter. The Society plans very interesting and instructive meetings and Accountants are asked to watch the Free Press for notices.

NIAGARA CHAPTER

The Niagara Chapter of the Society of Industrial and Cost Accountants of Ontario were fortunate in hearing a very interesting and educational talk at their meeting in the Leonard Hotel in St. Catharines, on Wednesday, October 20th, 1948.

Mr. M. C. Coutts, R.I.A., of Sangamo Co. Ltd., Toronto, gave a resume of the methods used by his company in presenting financial statements to management. This procedure is based on revolutionary and progressive principles, the primary object to acquaint management with the

CHAPTER NOTES

essential information in an interesting, brief and accurate manner. Mr. Courts illustrated his talk with projected slides.

The meeting was presided over by chairman, Mr. J. Shea, of Coles Hardware. Mr. L. Neale, of Provincial Engineering, thanked the speaker. Mr. A. Owen, Interlake Tissue Mills and secretary of the Chapter, mentioned that the Society has succeeded in obtaining a full slate of excellent speakers for the coming year. A brief summary of the program was given.

November—Mr. O. W. Cox, R.I.A., Industrial Cost Consultant, Windsor. Subject: "Cost Accounting and Control in Drug Manufacturing."

January—Mr. M. N. Vuchnick, President Lincoln Electric. Subject: "The Lincoln Incentive System."

February—Mr. J. M. Thompson, C.A., Controller Canadian Westinghouse. Subject: "Industrial Pension Plans."

March—Mr. R. A. Read, Woods & Gordon Co. Subject: "Production Control."

OTTAWA CHAPTER

The regular monthly meeting of the Ottawa Chapter of The Society of Industrial and Cost Accountants of Ontario was held at the E. B. Eddy staff cafeteria, Hull, on Thursday evening, October 21st. After dinner, C. B. Watt, R.I.A., Chairman of the Chapter, announced to the meeting that in recognition of the valuable services rendered by the retiring Chairman, D. R. Hutton, an initialled briefcase was being presented to him, the presentation being made by Miss Dorothea Craig. The meeting then resolved itself into a panel discussion on mechanized accounting under the direction of A. A. Sterns, Ph.D., assisted by G. S. Olson, E. J. Winter, J. H. Watts, and D. R. Hutton. Following a lively discussion, the members then were taken on a conducted tour of the I.B.M. (International Business Machines) installation in the E. B. Eddy office.

PETERBOROUGH CHAPTER

Mr. J. Kidner, Comptroller of Canadian Oil Companies Limited spoke to the members of Peterborough Chapter of the Society of Industrial and Cost Accountants at their meeting on October 25th, 1948. His subject was "Cents Elimination."

The address was ably presented to an appreciative audience. The speaker pointed out the labour savings and work simplifications which arise when cents are eliminated from certain phases of accounting records. He explained that while it is not practical to extend the practice to all accounts, particularly payables and receivables, many firms have carried the plan successfully to the point of elimination of cents from plant, depreciation, and expense accounts, and from most statistical statements. He outlined the experience of his company in this respect.

Mr. J. Blake Bell introduced the speaker. Mr. R. Adamson expressed the thanks of the Chapter for an interesting address.

Mr. G. Langhorne reported that membership has increased from 28 at 32 members.

Mr. R. C. Bastable welcomed the representatives of Bay of Quinte Chapter, Belleville. They had been invited to join with Peterboro Chapter. Mr. R. J. A. Taylor, secretary-treasurer of Bay of Quinte Chapter responded for the visitors.

COST AND MANAGEMENT

TORONTO CHAPTER

The regular dinner meeting of the Toronto Chapter was held in the Oak Room on October 14th. This was the annual "Students' Night" for which meeting the student group provide a speaker and conducted the meeting. For the evening the chair was turned over to Mr. H. Cannon, chairman of the student body, who also introduced the guest speaker, Mr. E. Sparrow, vice-president of the Imperial Varnish and Color Company.

The subject of the talk was "Industrial Relations in the Front Office" and proved to be very thought provoking. Mr. Sparrow traced the development of trade unionism in the factories and his experience on arbitration and conciliation boards has proved him to be sympathetic toward collective bargaining in the present day industrial relations.

Although in agreement with trade unionism in the shops, Mr. Sparrow does not feel that such an organization has any place in the office nor does he feel that it is necessary if management will use the experience gained from bargaining collectively with the factory workers in their dealings with the individuals in the office. Many of the privileges which the white collar workers enjoyed in the past—vacations, statutory holidays, sick leave, etc.—have now been extended to the man in the shop and, without special privileges, the field of office work fails to attract men as it did in the past.

Mr. Sparrow emphasized the necessity and value for management to use common sense in dealing with the office worker. Leadership training and a proper job and salary evaluation are musts if we do not wish our office workers to unionize.

The enthusiastic thanks of the audience were suitably expressed by Mr. H. Stock.

VANCOUVER CHAPTER

The Vancouver Chapter held its second meeting of the season in the York Room of the Hotel Georgia on Thursday, October 7th. After an excellent dinner the meeting was called to order by the chairman, Cliff Davis. He then presented Mr. Kenn Orr, chairman of the Vancouver Chapter for the past year, with the Fernie Trophy. At the same time Mr. Orr was presented with a fountain pen from the Vancouver Chapter as a token of their esteem and appreciation of his efforts for the Society during the past year.

Mr. Jim Scott presented the speaker of the evening, Mr. L. Drummond of the Income Tax Department, who spoke on the "Observations of an Income Tax Collector." Mr. Drummond's address was both interesting and informative and at the same time he made it very entertaining. He mentioned particularly that under the new income tax act, it should be possible to have more uniformity in making assessments. He gave a resume of assessing procedure starting with the local assessor, going to Ottawa and back again. Throughout his whole address he made it clear that a tax assessor is really a very human person. After the address, both Mr. Drummond and Mr. Edwardson, the chief corporation assessor for the district, held a question period which became the highlight of the evening.

Current Literature Digest

By HAROLD BRICKER, C.G.A., R.I.A.

New industries are coming to Canada in increasing numbers. As a passing thought it may be sufficient to say, "This is a good country to come to!" However, does one appreciate the organization necessary to accomplish the bringing of any concern anywhere? It is true that we can leave that to the bankers and the government but as cost accountants in industry we should look at our new enterprises with the idea of learning something about such movements of industry.

Factory Management and Maintenance, in the October edition 1948, published a survey on "PREPLANNING FOR PLANT LOCATION," which sets out, in concise form, the factors that may be experienced in the locating of a new plant. This survey is given under the following headings:

1. ESTABLISH OBJECTIVES.
 - (a) Market Advantages
 - (b) Manufacturing advantages.
2. SELECT AREAS TO BE SURVEYED.
3. DETERMINE STANDARDS FOR TYPE AND PLAN OF PLANT REQUIRED.
4. OBTAIN DATA ON POSSIBLE SITES.
 - (a) Sites without buildings.
 - (b) Sites with buildings.
5. SURVEY MOST-PROBABLE SITES.
 - (a) Make field notes.
 - (b) Prepare photographic case histories.
 - (c) Consult executives, town officials on utilities, services, taxes, etc.
6. COMPARE CHARACTERISTICS ON SITES WITHIN EACH AREA.
7. PREPARE SUMMARY OF CITIES AND SITES.
8. PREPARE FINAL SUMMARY.
 - (a) Compare pertinent costs for preferred site in each area.
 - (b) Recommend first, second, and third choice to management for final decision.

When the program of location has been settled, then, the question of building forms the next step. This is the first step and also the last step because the building must be made stream-line to accommodate the modern stream-line production. It must also, most modernly consider the comfort of the personnel. All these factors may make the business modern and competitive in its field.

Yes! New plans are being really, — STREAM LINED with EFFICIENCY.

COST AND MANAGEMENT

APPLICATION OF OPERATION TIME STANDARDS TO DEPARTMENTAL LABOR COST CONTROL

Under this heading the N.A.C.A. Bulletin November 1948, XXX No. 5, Franklin G. Jack has written an article which gives another approach of the use of labour cost in CONTROL.

This article is based on cost data accumulated as actual process costs by class of products with a small part as job costs. This is somewhat different from the usual standard costs.

The reports are scheduled from the various departments in the usual efficiency or deficiency from department individual to the overall operation.

The cost control plan is not part of the pay incentive plan, other than may be implied in the fact that increased production reflects itself in the plant-wide incentive plan. Despite this, there is a highly co-operative spirit existing among production workers and supervisors, and the industrial engineer, timekeeping, and cost departments. All, working together, strive to eliminate waste of all types. It provides departmental supervisors with an excellent tool, through the good use of which, good and profitable results are achieved. In the case referred to, some of the factors in improvement can be appreciated in the following:

1. Efficiency has shown a constant up-trend since the inception of the plan.
2. The cost of down time for all purposes and reasons decreased more than 60% in the last half of the year and continues to decrease.
3. Indirect labor cost has decreased approximately 25 per cent.
4. Non-standard time has decreased 72% in one department, 50% in a second, and held constant in a third.
5. Production per hour of direct labor increased about one third.
6. Despite higher labor rates per hour and even higher proportionate increases in burden costs, the unit costs in the departments measured showed less than 20% as much increase as might have been justified by the increased costs.
7. The increased productivity of the year, as compared to the month of the previous year in which the plan was started, was equivalent to a gain of double the cost of the standards and timekeeping operations.

The plan functioned so profitably that the experience seemed sufficiently favourable to justify the expenditures to provide it.

The forms and reports generally are those devised to supply the plant supervisors with the information they desire to enable them to get better results. In supplying the necessary information, the members of the accounting department involved have gained considerable knowledge of plant conditions affecting cost, and the supervisors have become cost conscious to a greater degree.

PEAKS AND VALLEYS OF PROFITS COULD BE LESS SHARP. RESEARCH, IN BUSINESS ACCOUNTING, AN N.A.C.A. CONTRIBUTION

VERSATILE STANDARD COSTS ARE A REALITY (a case study), is the subject through which Clinton W. Bennett, of Boston, presented,

CURRENT LITERATURE DIGEST

to the N.A.C.A. International Conference in 1948, the working method of the Committee on Research. They have provided the volume of material that has been published in the Bulletins under the Research sections. N.A.C.A. has been at the forefront of those using the case study approach in the field of industrial and cost accounting. The wide acceptance accorded the many case studies indicates quite conclusively that their method is sound.

There is, however, danger that some of lesser experienced, or new to the field, may obtain the idea that the installation of modern cost and industrial accounting methods simply involves the application in a given plant of the procedures of some other plant as set forth in a case study. Probably many N.A.C.A. case study procedures have been installed on a more or less cut and dried basis. The net result has no doubt been good and has made a contribution to business welfare in general.

A good cost accountant will do a good job in any industry without the benefit of a case study as a pattern. The job will simply be more difficult and take longer. On the other hand, an inexperienced or improperly trained cost accountant will not do a good job, irrespective of the number of case studies he may have at his fingertips. The good and successful cost accountant requires sound grounding, imagination, and a capacity for bold and original thinking.

There should be a practical blending of the economic and technical sides of cost accounting. Bookkeeping is used where book controls are necessary, but, engineering is used where engineering studies and techniques are called for. This is a desirable approach. There is much evidence that cost accounting has been held back by becoming bogged down in bookkeeping.

If we are to maintain a full employment economy—which is a MUST, and if we are going to achieve any substantial progress in the direction of straightening out the economic peaks and valleys of our business cycles, costs and prices must be thought of in terms of the long-range view. Management must think in terms of operations over a period of several years and not opportunistically or on a day to day basis, a practice which, too often, seems to be indulged in. The desirability of levelling out the BOOM AND BUST phase of business cannot be seriously questioned.

The Accountant's Horizon

By J. G. GIBSON,

Resident Comptroller of Chevrolet Plants, Detroit, Mich.

It is indeed a pleasure to cross the border between two countries unaffected by the elements of suspicion, hatred, and the desire of one to inflict their governmental or economic doctrines on the other. You represent a group of people vitally interested in a phase of activity whose development has been, and will be in increasing tempo, a more and more important factor in our economic progress. There has been, and undoubtedly this will be even more true in the future, a very close association between groups of accountants in our countries. It is well that this meeting is sponsored by three organizations who have been so essentially a part of this development. Contacts such as these but increase my pride in being associated with the accounting profession and my faith in the greater recognition of its importance as time goes by.

We do not intend to indulge in any form of oratory to-night, because in the first place we do not happen to be an orator. We intend primarily to direct our talk to the younger members of the group, drawing upon approximately thirty years' experience in accounting, supplemented by seven years in three other fields, for personal illustrations offered, not with any feeling of egotism, but with a humble recognition that these are experiences that I best know. Beliefs or viewpoints expressed may also not necessarily be in accord with policies of past or present employers. Although obedient and loyal to the methods and policies of an employer, one should never permit this to obscure his own individual freedom of thought and the ability to recognize the good developed by others.

After accepting the invitation to speak on the subject of "The Accountant's Horizon," with the usual meticulous desire for accuracy of an accountant, we repaired to a 1948 edition of what is classed as an up-to-date and comprehensive dictionary, to make absolutely sure that we definitely knew what our subject included. The word "horizon" was of first interest. Not being especially concerned with astronomy or geology, we passed over quickly the definitions for "sensible horizon," "celestial horizon," and "geological horizon." We finally settled on "the limit of range of perception, knowledge, or the like" as the sense of the subject, modified to some extent by the definition of an apparent or visible horizon as "the line or circle which forms the apparent boundary between earth and sky."

What did this modern dictionary call an accountant? "A person whose profession is inspecting and auditing business accounts." What was an account? As applied to our profession, this was "a formal record of the debits and credits relating to the person named (or caption placed) at the head of the ledger account" or "a balance of a specified period receipts and expenditures." Shades of the past! This took me back to the cartoons of old which portrayed the typical bookkeeper as a somewhat decrepit, sparsely haired, round shouldered man, equipped with green eye shade, pen stuck over the ear, black sleevelets covering the arm from elbow

THE ACCOUNTANT'S HORIZON

to wrist (either to protect or hide the frayed shirt cuffs) seated on a high stool before, or standing at a tall desk, usually built with a rack at the back, the better to hold the massive bound ledgers, and always the inevitable desk lamp. Certainly this is not the "accountant" intended for this subject. It is a mystery how this dictionary could reconcile such definitions with that given for "accounting"—"the theory and system of setting up, maintaining, and auditing the books of a firm, the art of analyzing the financial position and operating results of a business house from a study of its sales, purchases, overhead, etc., (distinguished from bookkeeping in that a bookkeeper only makes the proper entries in books set up to the accountant's plan)." So much for the subject.

It has been a long road from the faithful old bookkeeper to the conception of accountancy of these times. Buried in the old routine of debits and credits, balance sheet and profit and loss statements, who could foresee the modern aspects of vacation plans, group insurance, hospitalization and sickness benefits, paid holidays, annuity and retirement plans, separation allowances, wage bonuses, varied overtime and night shift premiums, cost-of-living allowances, suggestion plan awards, payments for jury and military duty and for hours spent in voting at public elections, income tax deductions, federal unemployment and old age benefits, etc. All of these have very essentially increased the duties assigned to and the authority of the accountant. It is presumed, of course, that if some or most of these have not already been experienced in Ontario, at least your horizon may be broadened in this respect in the future. Certainly if history is any criterion we face added loads of this nature in time to come. To-day functions such as cost analysis, forecasts, budgetary control, inventory control, internal auditing, price procedures, etc., are recognized as primary functions of the accountant. Old hide-bound practices have been re-evaluated and men of imagination and independent thought have modernized accounting thinking. For instance take the matter of inventory valuation. To-day you have the methods of "Lifo" and "Fifo" advanced and subject to considerable argument. Evidently some of the "new deal" terminology crept into this picture.

I remember in my lumbering days how revolutionary a certain method of cost allocation was considered. At that time for instance in a certain species of hardwood lumber you might have prices ranging from \$13.00 to \$110.00 per M. feet depending on the grade. None of the five grades was produced in the same percentage of total lumber, nor did they move on the market in the same ratio. All were costed at the same average rate per M. feet with the result that, during periods when low grades were moving, a loss was reflected and vice versa when high grades were sold. Some original thinker advanced the idea of allocating the average costs per M. feet on the basis of the quantities produced and market price of the various grades and sizes. From then on a more favorable reflection of profits was secured. This was a result of independent reasoning so essential in the continued advancement of accounting standards.

In a similar manner, in connection with the mining of ore, we could be faced with deposits of both high and low grade. Straight application of the more or less fixed costs of investment in buildings, shafts and levels,

COST AND MANAGEMENT

administration expenses, etc., might result in an average cost per ton, which could make the cost per ton of low grade ore in excess of market value, and theoretically therefore, it would not pay to mine it. On the other hand, we have a fixed investment and a more or less fixed administrative overhead that would increase the cost per ton of the higher grade ore due to lower volume. Common sense would tell us that, so long as the market value of the lower grades was not exceeded by the out-of-pocket cost of mining, these should be removed from the ground regardless of our method of applying costs. The use of plain, matter-of-fact common sense has tempered our accounting theories of the last decade and its expansion is vital to the enlargement of our horizon.

The same two fields of private and public accounting, open to the novice in accounting for so many years, have now been expanded with the trend of modern times by the addition of governmental field. I can well remember, in contacting colleges in a certain state some 12 years ago in an endeavour to select employees for our industrial accounting offices, that our greatest competitors were the commissions of that state, rather than the public accounting firms. This was true, in spite of the fact that the dean of the school of business administration was interested in a public accounting firm. We faced two angles: first, peculiarly enough then, the initial salaries offered by the state commissions were higher than the range in effect in our organization, and there was the added inducement of more liberal vacation, sickness, and retirement policies—naturally an attraction to those interested primarily in so-called security; secondly, there was a prevalent feeling that one should have a few years of public accounting experience before entering the employ of an industrial or other type of private organization. This dean very kindly asked us to speak to his students, gave us all the time desired, and gave us full permission, as the first industrial accounting representative that had appeared before his classes, to express our views fully, even though they might be contrary to his ideas. We stated then, and we have not changed our opinion, that we did not believe previous public accounting experience was necessary to later profitable corporation employment. We say this in full recognition of the number of very able executives who have formed such connections successfully after field experience. We feel that the personal characteristics of the individual, as well as the availability of positions, are the important factors. The successful public accountant may be so constituted that he would not enjoy the activities in an individual organization. Transplant the individual enjoying the functional tasks of an industrial organization to the more analytical and historical duties embodied in an analyst or auditor, and he might be neither happy nor successful in his new duties. If one does not like or cannot learn to like his daily tasks, he already has two strikes against him and his chances of scoring are very small.

The young accountant may begin his vocation in either a small or large organization. Having secured my first experience in an office consisting of twenty people, I can recognize certain advantages in that each individual had more direct contact with the various phases of accounting with the result that he more quickly secured an all-around training. However, this same opportunity presents itself in the larger organization,

(Continued on page 381)

Don't be ambushed by inventories

You can easily get scalped in the backwoods of your inventories unless you know the terrain like the palm of your hand.

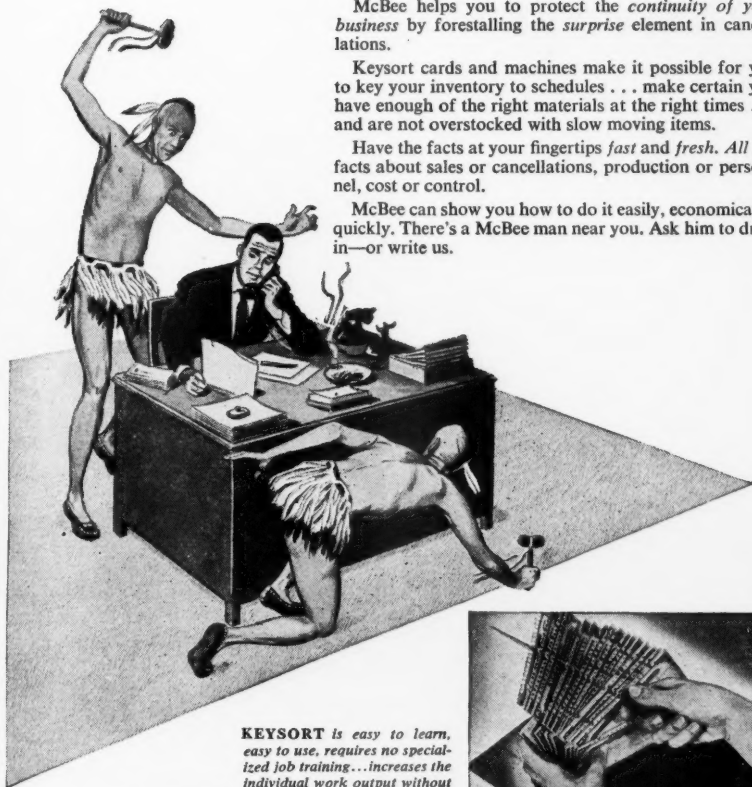
There's that dangerous passage between the time it takes to compile *all* your inventory facts and the time it takes to readjust schedules for your men, machines and materials. And if lowered volume lurks in lines where you least expect it, rising costs can tomahawk your profit margin without warning.

McBee helps you to protect the *continuity of your business* by forestalling the *surprise* element in cancellations.

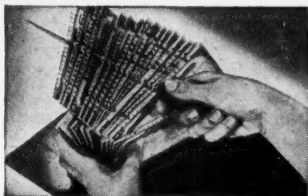
Keysort cards and machines make it possible for you to key your inventory to schedules . . . make certain you have enough of the right materials at the right times . . . and are not overstocked with slow moving items.

Have the facts at your fingertips *fast* and *fresh*. All the facts about sales or cancellations, production or personnel, cost or control.

McBee can show you how to do it easily, economically, quickly. There's a McBee man near you. Ask him to drop in—or write us.



KEYSORT is easy to learn, easy to use, requires no specialized job training...increases the individual work output without increase of individual effort.



THE MCBEE COMPANY

SOLE MANUFACTURERS OF KEYSORT — THE MARGINALLY PUNCHED CARD

310 Spadina Ave.

TORONTO, Ont.

Offices at Montreal and Hamilton



FASTEST

Only one calculator, of all calculators built, shows the result of each individual calculation and gives automatic grand totals or net results. It saves 15% to 40% in calculating time.



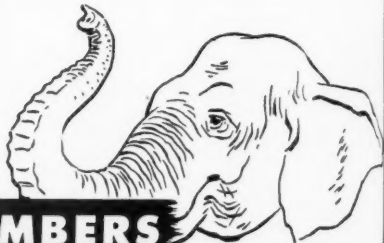
SUREST

This different calculator eliminates rehandling of figures—goes straight to the answer in a continuous operation. That means less chance for errors.

It's the Calculator

that **REMEMBERS**

what other Calculators forget



The "built-in-memory" makes the difference! What other calculators forget, the Burroughs Calculator remembers. Results of individual calculations are stored and accumulated in the exclusive "memory" dials. Grand totals or net results are obtained automatically. There's no rehandling of figures, no waste of time and effort. Find out how this Burroughs Calculator can speed work in your office, cut figuring costs. Call your nearest Burroughs office for a demonstration. Burroughs Adding Machine of Canada, Limited, Windsor, Ontario.



BURROUGHS



CALCULATORS

COST AND MANAGEMENT

ACCO Binders

of Fine Pressboard
For All Loose Leaf Forms



These Binders of fine smooth Pressboard, equipped with the universally known ACCO Fastener, provide a most practical and economical means of binding everything from Vouchers to Distribution Sheets.

Surprising economies in cost are effected in the use of sizes from 11x14 up.

Five distinct colors are available—Black, Red, Green, Grey and Blue. Fastener capacities up to 2,000 sheets.

Your Commercial Stationer will supply you.

ACCO PRODUCTS

comprise:

BINDERS, FOLDERS,
FASTENERS, PUNCHES,
CLAMPS, CLIPS,
FILE GUIDES

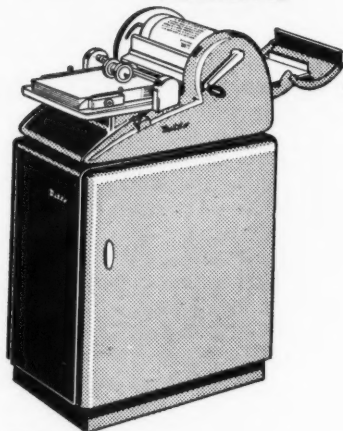
Made by
Acco Canadian Co.
Limited, Toronto

Copy Anything

WITH THE NEW DITTO D-15

✓ WRITTEN
✓ PRINTED
✓ TYPED
✓ DRAWN

Get quick copies of anything
... typed, printed, written,
or drawn ... with the trim,
new Ditto D-15 Duplicator.
No Stencils! No Mats!
Adaptable to the needs of
every organization ... of-
fices, schools, churches, clubs.
Clean, errorless copies at low-
est cost. Investigate the many
advantages of the new Ditto
D-15.



**DIRECT PROCESS
(LIQUID) DUPLICATOR**

DITTO of Canada, Limited

General Office and Factory

310 SPADINA AVENUE, TORONTO

BRANCHES OR AGENCIES IN

Windsor	London	Hamilton	Toronto	Ottawa	Montreal
Port Arthur	Sudbury	Quebec	St. John	Halifax	
Vancouver	Calgary	Edmonton	Regina	Saskatoon	Winnipeg

THE ACCOUNTANT'S HORIZON

especially if a policy of rotation of personnel is followed. By this I mean the shifting of the individual from desk to desk, from department to department, and from plant to plant in a multiple-plant corporation. Such a method will give the individual a well-rounded foundation in the various phases of accounting, such as time, payrolls, costs, payables, billing, receivables, general ledger, internal auditing, etc. It may cost a little more, but it makes for a trained, flexible organization, and it fits the individual for a wider possibility of employment, if by chance he is forced to seek other connections. The latter point was especially brought home to me in 1932, when applicants were interviewed with as much as twenty years' experience in one phase of accounting only, such as accounts payable.

The large organization, with its greater volume of transactions, gains its efficiency by the division of duties performed by one individual into specific operations assigned to several. The single accounts payable clerk may grow into a group of individual pricers, matchers, payers, freight clerks, etc., or into a group of individuals each assigned specific alphabetical groups of suppliers and performing all the tasks involved in their related accounts. The increase in employees and the expansion in departments thus affords, in the larger accounting organization, a greater opportunity for supervisory positions, which in turn requires, in addition to basic accounting knowledge, the ability to handle people.

We cannot all be supervisors of whatever rank, nor can all supervisors become controllers, vice-presidents, or presidents. There just aren't enough of these jobs; nor are we, as human beings, all equipped with the same essential qualities of leadership, tact, desire for and ability to assume higher responsibility, etc. What other profession, however, under modern conditions, offers a more varied opportunity for specialization, when you consider the fields of insurance, taxes, budgetary control, statistical analysis, market research, forecasts, internal auditing, job evaluation, business machine methods,—these are some of the factors. We have also noted a marked trend on the part of manufacturing, sales, advertising, and other departments in the assignment of trained accounting men to positions where the duties may be more of a financial nature than the specific requirements of producing, selling, advertising, etc.

No doubt many of you have seen published lists of the heads of large corporations showing their experience. Note how many have come from the accounting field. Just a few days ago, General Motors announced the promotion of the general manager of a car division to be executive vice-president,—a former accountant—he, in turn, succeeded by his divisional comptroller. Three of the four executive vice-presidents of that corporation are now accounting trained men. Yes, we have come a long way from the day of the bookkeeper; we have met and assumed our responsibilities: we must now be ever alert to maintain our standards and not just keep abreast of, but well ahead of, the times.

In a sense, I cannot help but envy the opportunities offered to you younger people to-day. This, in spite of the fact that your greatest handicap (as I have often told my newer supervisors) is that you do not now have as many hours to assimilate the more complicated accounting opera-

COST AND MANAGEMENT

tions of the present, as was afforded we oldsters in accounting. We went through the period when very little consideration was given to overtime, and we not only had Saturdays, but also a good many evening hours, added to our time for gaining experience. Occasionally some were allowed fifty cents for supper money—you could actually get a satisfactory meal then for that price. Understand me, I am not criticizing the shorter work week of to-day. I can still remember the drop in normal daily efficiency following night work. Certainly close application to duties and full use of present hours can more than compensate for the longer work periods of old.

Those were the times when a certain industrialist outlined a simple method of accounting as one where you put the money received from sales in a barrel, paid your bills in cash, and whatever was left at the end of the year was profit. Simple, indeed, with no need for consideration of factors such as reserves, accruals, deferrals, liabilities, receivables, and the dozen or other modifications to a determination of true profit or loss. I never did hear what he recommended if, like Mother Hubbard, we went to the barrel for money to pay a bill and found it bare. Personal contact of 30 years with the progress obtained, and faith in future progress with unlimited horizons after meeting with a group such as this, rekindles my enthusiasm for what became my fourth and last type of endeavor.

It even approaches that of the little first grade girl encountered during our experience as a township superintendent of schools. This township had about a 90 per cent. foreign born population, and most of the children starting school could speak very little English. As a result the early reading classes resulted in sing-song recitations with no variation in tone, no inflections, nothing but a series of continued monotones. On our early visits to the schools, we instituted a program to secure expression in reading and would take over these classes in an endeavor to arouse enthusiasm and get proper feeling into their recitations.

At the conclusion of the first class, we asked the children to take their books home and read to their parents; if they tired of this practice, go out into the barn and read to the cows and they would give more milk. Up went the hand of a little seven-year-old girl and, after recognition, came the words: "We don't have a cow, but I will go out to the barn and read to the horses." Now I am somewhat doubtful as to what the end result would be in this case, but, during New Deal days in our country, I had a faint suspicion that some of these children must have read aloud to the brood sows. This finally resulted in the surplus of little pigs, which a paternal economic program so kindly put out of their misery. You and I, however, can unashamedly use some of that little girl's unadulterated enthusiasm for the future possibilities in accounting.

It has been well said by Raymond that "a horizon is nothing save the limit of our sight." This is well in accord with the previous definition referred to the "apparent boundary between earth and sky." It is not fixed. It forms anew and afar with every inch of approach. That is the type of goal that should ever be before us. That should influence us in being of service to our associates in production, selling, etc. Keep

THE ACCOUNTANT'S HORIZON

costs and information as accurate as possible but, above all, current. Break down expenses into factors that will force more people into the control of costs. Carry cost training down through the foreman level. Simplify terminology and procedures so that they are understandable to other divisions. Familiarize ourselves with the problems and practices of other departments so that we are better able to co-operate. Translate wage costs into hours and man power equivalent, when this will better portray conditions.

To-day, we also face another horizon at which meet a sea troubled with stormy waves of "isms" and a sky dark with clouds of suspicion, envy, and ignorance. Let us hope that this is an apparent horizon which will disappear with time, and not simply a limitation of our sight. With the sound financial reasoning so inherent and expected in a group of accountants, we are obligated, both to our calling and our country, to do everything within our power to counteract the false doctrines propagated by the swarm of "ists" now in our midst.

When late samplings of public opinion in the States indicate that although actual profits are below those considered fair by the public, the average individual's idea of profits obtained is much higher; and also that there is a doubt in half the public minds as to the accuracy of corporation statements, in spite of examinations by certified public accountants and governmental agencies,—then we are most certainly involved in a campaign for a better public opinion. Simplifying of financial statements and full publicizing this goal, but, as individuals, we should be militant in our approach to this problem, and lose no opportunity of meeting and combating any or all expressions of "fuzzy-wuzzy" thinking made in our individual presence.

In closing, I trust that each of you will always consider the completion of your business education as but a commencement, that by continued reading of current publications and memberships in organizations related to your profession, you will never permit yourself to become stagnant. Analyze yourselves and fix your goals. Frank Colby very aptly said: "I have found some of the best reasons I ever had for remaining at the bottom simply by looking at the men at the top." Have faith in yourself. Be not discouraged. Keep your eyes firmly fixed on your horizons and say to yourself as did Thoreau:

"Great God, I ask Thee for no meaner pelf
Than that I may not disappoint myself,
That in my action I may soar as high
As I can now discern with this clear eye."

A Survey of the Differences Between Canadian and United States Accounting Procedures, Caused by Variations in Law

By JAMES M. MOYNES, C.A.,

Associate Professor of Accounting, University of British Columbia

SECTION I.

INTRODUCTION

It should be stated at the outset that, in general, the accounting procedures in the countries are almost identical. With few exceptions, educational institutions at the university level in Canada utilize accounting texts authored and published in the United States. However, in several stages of use of such texts, it is necessary to decide whether or not the law of Canada will have the effect of changing the accounting procedure as presented in the United States text. This brief survey is being written from the point of view of the Canadian using such texts in Canada and will present the Canadian treatment of the basic divergencies.

These divergencies will be discussed under the following headings:

1. With respect to partnerships.
2. With respect to Limited Companies or Corporations.
 - (a) Treasury Stock.
 - (b) Discount on sale of stock.
 - (c) Statutory requirements of the Balance Sheet.
3. General.
 - (a) Copyrights.
 - (b) Patents.
 - (c) Interest.

SECTION II.

THE PARTNERSHIP DIVERGENCY

The accounting for partnerships in the two countries can be said to be identical with one exception. In the United States, in the event of dissolution of a partnership, the amount of any capital deficiency (which cannot be made up by the deficient partner from resources outside the partnership) is shared between the remaining partners as a loss. This loss is shared in the normal profit and loss sharing ratios. In Canada, if the same circumstances obtain, the loss is shared between the remaining partners in the ratio of their capital accounts, at the time normal business operations ceased and dissolution began. This peculiarity is referred to as the "Garner-Murray rule," being based on an English case by that name.

To illustrate, assume that A, B, and C were equal partners, with capital balances of \$24,000.00, \$12,000.00, and \$8,000.00 respectively. It was decided to dissolve the partnership at that point. On realization of the assets, losses totalling \$25,500.00 were incurred. In both the United States

DIFFERENCES IN ACCOUNTING PROCEDURES

and Canada, this loss would be shared equally by the partners, i.e. \$9,500.00 each. C would then have a capital deficiency of \$1,500.00. If C pays this amount to the partnership, the \$17,000.00 cash on hand would be paid to A and B, \$14,500.00 and \$2,500.00 respectively. This would be the same in both the United States and Canada. But if C could not pay the amount of his deficiency to the partnership, the procedure in the two countries would differ. In the United States the \$1,500.00 would be shared as a loss between A and B in their normal profit and loss sharing ratio—in this example the equal—and each would bear \$750.00 of the loss. The \$15,500.00 on hand would be distributed \$13,750.00 to A and \$1,750.00 to B. In Canada, the loss would be shared between A and B in the ratio of their capital accounts at the time dissolution commenced—in this example, \$24,000.00 to \$12,000.00 or 2:1 — and A would absorb \$1,000.00 and B would absorb \$500.00.* The \$15,500.00 cash on hand would be distributed \$13,500.00 to A and \$2,000.00 to B.

Of course, by specific mention of this point in the partnership agreement, the partners can agree beforehand on the United States rule or any other rule they desire. But if the point is not covered by the agreement, the Garner-Murray rule will apply.

It should be evident that this rule has an application in cases of gradual realization and liquidation as well.

SECTION III.

SOME DIVERGENCIES REGARDING CORPORATIONS

In the United States, limited companies are incorporated by the individual states, not by the Federal government. In Canada, limited companies may be provincially incorporated or Dominion incorporated. The various provincial Company Acts do not differ greatly from the Dominion Act and therefore the provisions of the latter will be the "Canadian procedure" presented here.

Treasury Stock.—In the United States, the law regarding treasury stock varies in different states. The following analysis taken from the Accountants' Handbook, classifies the present possibilities, by states.†

1. Statutes contain no provisions relative to treasury shares.
 - (a) Permitted by court decisions with some restrictions.
 - (b) No important court decisions.
 - (c) Court has ruled that a corporation has no power to purchase its own stock.
2. Statutes permit a corporation to acquire its own stock.
 - (a) Without restriction with respect to condition of capital or surplus.
 - (b) Under specified conditions of capital and surplus.

It is stated that most of the states fall in category 2b.

In Canada, the opposite is true. The Company Act and the courts have ruled that if the object of the purchase is merely to sell again or

*—It is not the purpose of this paper to consider the merits of either Canadian or United States rulings or laws, but merely to present each.

†—Accountants' Handbook (New York: The Ronald Press Company, 1944, p. 1006.

COST AND MANAGEMENT

retain without cancellation, it represents a reduction of capital and is illegal.

Also, it has been clearly stated that formation of a subsidiary company to buy up the shares of the parent is illegal. In fact once a company becomes a subsidiary, it is generally not allowed to buy parent company shares. This point is not covered in the Act, but is a consensus of opinion based on various court decisions.

It has also been held that a surrender of shares, the company releasing such shareholders from any further liability they have, is equivalent to purchase of shares by the company and is illegal and the transaction is void.*

In general the Act allows that:

- a. Shares duly declared forfeited for non-payment of calls become the property of the company and may be sold,
- b. Fractions of shares may be purchased for purposes of consolidating shares,
- c. By following correct procedure, the company may buy and cancel shares to reduce capital (with government and creditor approval) and
- d. Shares may be bought for issue to employees under stock ownership or similar plans.

However, it has been held by the courts that surrender of shares to a trustee, where no consideration is involved, can be legal. Therefore, if it is desired to donate shares to a company, e.g. proceeds of the sale to be used for working capital, the shares are donated to a trustee. The trustee then disposes of them and donates the proceeds to the company. When such proceeds are received, they are usually credited to "Donated Surplus."

Discount on Sale of Stock.—In the United States most states prohibit the issue of shares at a discount. In Canada, under the Dominion Act it is illegal to issue shares at a discount. This is the case in most of the provinces as well. There is one exception. In the majority of the provinces, mining companies may issue Par Value shares at a discount, with no liability to the shareholder beyond the original agreed upon price. There must be a by-law of the company fixing the discount rate and it must be confirmed by the shareholders in a general meeting.

If shares are issued at a discount the following court decision applies:

If a subscriber to whom shares are allotted under an illegal contract, allows his name to remain on the register until his remedy against the company is lost on its going into liquidation or deals with the shares or so acts with respect to the shares as to create an agreement by conduct to accept them he will be bound to retain them with the liability the law attaches to the shares.†

The company faces penalties for the illegal issue as well.

A commission may be allowed on the sale of stock; but it must not exceed the rate stated in the prospectus, and it must not be so unreasonable as to, in reality, grant a discount.

*—C. A. Masten and W. K. Fraser, *Company Law of Canada*, (Toronto: The Carswell Company Limited, 1941), p. 283. The actual case was *Bellerby v. Rowland and Marwood's Steamship Co.* (1902) 2 Ch. 14.

†—*Ibid.*, p. 194. The case is *Welton v. Saffery* (1897) A. C. 299.

DIFFERENCES IN ACCOUNTING PROCEDURES

Balance Sheet.—In a perusal of United States accounting texts, the writer noted evidence of a required or prescribed form and content of Balance Sheet in the utility field. In addition the Securities and Exchange Commission and various other governmental agencies require reports in a prescribed form, for certain businesses.

In Canada, the Dominion Act lists, in considerable detail, items which must be presented in every limited company's annual Balance Sheet and Statement of Income and Expense. Some of the Unusual items will be mentioned.

The basis of valuation of inventories must be stated.

The basis of valuation of securities must be stated.

Debts of officers, directors and shareholders must be shown separately. This does not mean trade accounts, but rather advances or loans.

There must be shown separate accounts for Capital Surplus, Distributable Surplus and Earned Surplus. Distributable Surplus is defined as being that arising from a premium or Par Value stock or excess of paid-in amounts over stated value of No-Par value stock. The latter is limited to 25 per cent. of the total paid in on No-Par stock. Dividends may be paid from this surplus, if there is no conflict with the general rules regarding payment of such. These rules will be mentioned shortly. These separate accounts for the different types of surplus must show the opening balance, each adjustment, the net profit or loss and the dividends declared.

In connection with dividends, the act prohibits a dividend declaration when the company is insolvent or which will render the company insolvent or which will impair the capital of the company. In the case of a company operating any kind of wasting asset property, the dividend fund may be based on profits before depletion charges. Seventy-five per cent. of a company's assets must be of a wasting nature for it to qualify as a company operating wasting asset property.

In the United States, the different state laws cause considerable variation with respect to property of declaration of dividends. The Accountants' Handbook summarizes the restrictions as follows:

1. The most frequent limitations is that dividends are payable out of surplus, that is, to the extent that the net worth of the assets exceeds the amount of the legal capital. This is frequently made subject to judicial or statutory exception as to the distribution of the proceeds of wasting assets. In general, however, dividends are forbidden if there is an impairment of net assets below the legal capital.
2.
3.
4. In many states a general insolvency limitation is combined with the surplus or net profits limitation.*

Statutory Audit.—While the next difference presented is not an accounting difference in the strict sense, it is felt that it is sufficiently related and of enough importance to warrant being included.

*—, . . . , Op. cit., p. 1048.

COST AND MANAGEMENT

Most United States corporations of appreciable size have their books and records audited independently. Some of these audits are compulsory, for example, to satisfy the Securities and Exchange Commission. There is, however, no general required or compulsory audit.

In Canada, the Dominion Company Act and seven of the nine provincial Company Acts, require that each limited company have an independent audit. Two small provinces are exceptions. The powers and duties of the independent auditor are fairly clearly defined in each of the governing acts. This fundamental difference must be borne in mind by readers of American texts on corporation auditing.

It is true that the Canadian Acts do not state that the audit of each corporation is to be conducted by a member of a recognized professional society. In practice, however, most Canadian Companies have as an independent auditor, a member of one of the societies. The largest society, by far, is the Dominion Association of Chartered Accountants.

The courts have held that the auditor appointed must be capable of "average contemporary practice.* This is unfortunate terminology, for how can all auditors be "average?" But in the case of litigation involving responsibilities of an auditor, a member or members of recognized professional societies has or have been called as witnesses. Their testimony as to what they considered good or average practice has been accepted by the courts.

One more item in connection with auditing will be mentioned briefly. In the United States, the auditor may be chosen by the stockholder, by the Board of Directors or any way the stockholders decide.

In Canada, the auditor is appointed by the stockholders at their annual meeting. It follows that the independent auditor reports to the stockholders. It might be noted that Holmes is incorrect in stating that "Canadian Company Act" requires that stockholders elect the auditors from names submitted by the board of directors or by the executive committee."† Any stockholder may submit a nomination for auditor with legal notice of 14 days before the annual meeting.

SECTION IV.

MISCELLANEOUS DIVERGENCIES

Copyrights.—The important difference with respect to copyrights is in the term of legal life. In the United States, the term of a copyright is 28 years with the possibility of renewal for a further 28 years.

In Canada, the life or term of a copyright is for the life of the author plus a 50 year term after. In the case of joint authorship, the term is for the life of the author who died last and 50 years thereafter. If either author is a national of a country which allows a shorter term of protection, that shorter term will apply in Canada. Also, if the work has not been published or performed in public before the death of the author, the term is for 50 years after publication or public performance.

*—R. G. H. Smalls, *Auditing* (Toronto: Sir Isaac Pitman and Sons: Canada, 1933), p. 11.

†—Arthur W. Holmes, *Auditing Principles and Procedure*, (Chicago: R. D. Irwin Inc., 1946), p. 16.

DIFFERENCES IN ACCOUNTING PROCEDURES

It is just as much the case in Canada as in the United States, that the legal life of a copyright may bear little relation to the useful life. If it appears that the useful life will be less than the legal life, the copyright will be written off over the useful life. If a copyright appears to have an indefinite useful life, in the United States it would be written off over 56 years, in all likelihood. In Canada it is impossible to determine exact legal life until the author dies. In theory, it is necessary to estimate the author's remaining expectancy of life, add 50 years and write off the costs over the total number of years. In practice the cost would probably be written off at the rate of 1/50 per year. If necessary, it would be revalued at a later date when the exact legal term of life became known.

Patents.—Here again, the difference may be one of terms of life. In the United States, the life of a patent is 17 years. In Canada, patents granted prior to 1935 have an 18 year life, while those granted from 1935 on, have a 17 year life. Therefore, at present it is possible to write off some patents at the rate of 1/18 of the cost annually and others at the rate of 1/17 annually. Again the useful life will be considered, as well as the legal life, when estimating what the annual write off should be.

Interest.—In Canada, 365 days (366 days in a Leap Year) are always used as the year in calculating interest. In the United States, 360 days are sometimes used.

In Canada, all notes and bills, except those payable on demand and those which specifically provide otherwise, have three days, called "days of grace," added to the stated time of payment. The bill or note is payable on the last day of grace. If the time of a note or draft is stated in days, the actual number of days must be counted and the instrument is due three days later, if days of grace apply. There is no such proviso in the United States.

This period of grace does not create any variation in the accounts in which entries are made regarding interest, but it does change the calculations required. Incidentally, if a note or bill is drawn in one country and payable in another, the days of grace will be allowed, if allowed in the country of payments.

As an example, consider a note of \$6,000.00 dated 1 June, 1947, payable in 30 days with interest at 6% before and after maturity. In Canada, this note would be due on 4 July, 1947. Interest would be 6% on \$6,000.00 for 33 days or \$3.25. In the United States, the note would fall due on 1 July and interest would be \$3.00 if a 360 day year is utilized.

The difference is also evident when a note is discounted before payment. In the above example, if the holder discounts the note at a bank immediately on receipt, the bank will compute the sum it will pay as follows: maturity value, as above computed, of \$603.25 less discount at the bank rate, say 7%, for the 33 days. This discount amounts to \$3.82 and the net amount of \$599.43 will be the amount paid by the bank.

The most common use of "days of grace" is in connection with sight drafts. However, as illustrated above, there is a very definite application in the case of promissory notes.

« STUDENT SECTION »

ADVANCED COST ACCOUNTING

By A. HARRIS, C.A.

Paper No. 1 (20 Marks)

Problem 3

Row Company Accounts use a standard cost system. For the year ended 31st March, 1948, the Company results may be summarized as follows:

	Standard	Actual
Machine hours budgeted	7,000	
Actual Machine hours		6,500
Units budgeted	140,000	
Actual Units produced		143,000
Material costs budgeted	\$ 168,000	
Actual Material costs for units produced		\$ 178,750
Direct Labour costs budgeted	\$ 15,750	
Actual Labour costs for units produced		\$ 14,300
Factory overhead costs budgeted:		
Indirect Material	\$ 26,200	
Indirect Labour	18,170	
Rent	6,000	
Repairs and Maintenance	7,610	
Light and Power	3,900	
Depreciation	2,300	
Insurance	1,840	
Taxes	900	
Miscellaneous	3,080	
	\$ 70,000	
Actual Factory overhead costs for units produced		\$ 78,650

There is no inventory of work in process at the opening or close of the period.

Required:

1. Actual and standard cost per unit of product.
2. Statement to show analysis of variances.
3. Estimate the production and cost if 7,000 machine hours of production had been secured, assuming that manufacturing expenses would have increased \$1,850 in doing so and that the actual rate of production would have been maintained.
4. Estimate the cost of the production lost by not securing the full 7,000 machine hours of operation.

STUDENT SECTION

Solution to Problem 3
1. Actual and Standard Cost per unit of product.

Actual Cost			
Direct Material	178,750	143,000	1.25
Direct Labour	14,300	143,000	.10
Manufacturing Expense	78,650	143,000	.55
	<u>271,700</u>		<u>1.90</u>
Standard Cost			
Direct Material	168,000	140,000	1.20
Direct Labour	15,750	140,000	.11 1/4
Manufacturing Expense	70,000	140,000	.50
			<u>1.81 1/4</u>

2. Statement of Analysis of Rate and Quantity Variances.

	Due to Rates		Due to Quantities		Net Variances	
	More	Less	More	Less	More	Less
Material						
143,000 @ 5c						
3,000 @ \$1.20	7,150.00		3,600.00	10,750.00		
Labour						
143,000 @ 1 1/4c		1,787.50	337.50			1,450.00
3,000 @ 11 1/4c						
Manufacturing Expense						
143,000 @ 5c	7,150.00		1,500.00	8,650.00		
3,000 @ 55c						
	<u>14,300.00</u>	<u>1,787.50</u>	<u>5,437.50</u>	<u>19,400.00</u>		<u>1,450.00</u>
	1,787.50			1,450.00		
	<u>\$12,512.50</u>		<u>5,437.50</u>	<u>17,950.00</u>		

COST AND MANAGEMENT

3. Estimate of Production and Cost for 7,000 machine hours.
 Production 143,000 units \times 7,000 machine hours = 154,000 units

6,500 machine hours

Cost Estimate	
Direct Material	154,000 @ 1.25 = 192,500.00
Direct Labour	154,000 @ .10 = 15,400.00
Manufacturing Expense	78,650 @ 1,850 = 80,500.00
	<u>288,400.00</u>

Unit Cost 18,727.00

4. Estimated Cost of Production Cost.

Cost on 7,000 machine hour basis	288,400	Production	154,000	Unit Cost
Cost on 6,500 machine hour basis	271,700	"	143,000	\$ 1.8727
Difference being cost of Cost Production	<u>16,700</u>		<u>11,000</u>	1.90
				\$ 1.5188

Comments

This was a very simple problem and many recognized its simplicity and did the problem accurately with consequent results. A number of candidates appeared to be seeking something more complicated and only answered the first part. The average mark was 11 out of 20.

